KOCH PIPELINES CANADA, L.P.

Real People Creating Real Value

ANNUAL REPORT 2000

Koch's Vision

To become Canada's leading hydrocarbon transportation business, providing our customers with safe, reliable, market-responsive and cost-effective product handling and delivery services.

We will maximize long-term value to our investors by capturing the full profit potential of our assets, prudently managing capital resources and leveraging our core capabilities to grow the business.

To be successful we must achieve operations excellence in the areas of compliance, safety and environment, asset integrity and cost effectiveness.

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Real People Creating Real Value

Our 2000 annual report theme emphasizes the fact that opportunity, growth and success don't just happen. Behind the good news for our unitholders this year is a team of experienced managers and field personnel passionately committed to excellence in service to our customers, our unitholders and the communities where we operate. These people are the true spirit and energy of Koch Pipelines Canada, L.P.

Partnership Profile Koch Pipelines Canada, L.P. (the "Partnership") is a publicly traded limited partnership which owns and operates four Canadian pipeline systems: the Bow River Pipeline System, the Koch Alberta Pipeline System, the Koch Valley Pipeline System in Alberta and the Mid-Saskatchewan Pipeline System in Saskatchewan. These pipeline assets gather crude oil from producer-owned production treating facilities (commonly known as batteries), truck terminals and other interconnecting gathering pipelines for delivery to regional refineries or major export pipelines. Combined, the systems comprise one of the largest crude oil feeder pipeline systems in Canada, totalling approximately 3,900 kilometres in length. In 2000, the pipelines had an average throughput of 248,200 barrels per day of crude oil and condensate. In addition, the Partnership holds a 15% interest in Cold Lake Pipeline Limited Partnership.

Advisory Certain information regarding the Partnership contained herein may constitute forward-looking statements under applicable securities law. Such information, although considered reasonable by the General Partner at the time of preparation, may prove to be incorrect and actual results may differ materially from those anticipated in the forward-looking statements.

The Partnership's Class A units may only be held by Canadian residents. In the event that the Partnership's Class A units are acquired by a non-resident of Canada, the General Partner has the authority to take appropriate steps to ensure that such units are transferred to a Canadian resident. Investment in the Class A units is regarded as foreign content for registered retirement savings plan, registered retirement income funds and deferred profit sharing plan purposes.

Financial Highlights

($ thousands except per unit amounts)	2000	1999
Throughput volumes *(Mbbl/d)*	**248.2**	243.7
Revenue	**$ 83,133**	$ 76,958
Operating expenses	**(25,614)**	(22,430)
General and administrative expenses	**(3,750)**	(3,843)
Net income (loss)	**8,775**	(802)
Capital expenditures incurred	**(5,819)**	(9,894)
Investment in Cold Lake Pipeline Limited Partnership	**(2,338)**	–
Reserve to be used for planned capital and maintenance projects	**(2,920)**	–
Reserve to be used for future distributions	**(332)**	(2,249)
Distributable Cash paid/payable	**48,312**	46,848
Per Class A and B unit amounts:		
Net income (loss)	**$ 0.12**	$ (0.01)
Distributable Cash paid/payable	**$ 0.66**	$ 0.64

The Year At A Glance

What we said we'd do – In last year's annual report we outlined our intention to capitalize on rebounding industry fundamentals by seeking opportunities for growth both within and beyond our existing asset base to add long-term value for our unitholders.

What we did – As industry conditions continued to improve, we stayed true to our strategy and delivered on our goals. Specifically we:

- Increased distributions to $0.17 per unit in September, resulting in annual declared payments of $0.66 per unit to unitholders.
- Improved operating cash flow per barrel from $0.57 to $0.59.
- Committed $50 million to the Cold Lake Pipeline Limited Partnership to take advantage of opportunities in the fast-growing oil sands region of east-central Alberta.
- Earned another safety award for zero lost time accidents from Alberta Human Resources and Employment.
- Completed $6 million in capital projects, including three new battery connections and implementation of a state-of-the-art leak detection system.
- Achieved a 40% reduction in reportable releases; 55% reduction in total volumes spilled.

"We've established a record of earnings stability, we have a game plan for sustaining it, and we've got a strong balance sheet that will support future growth in our business. We've positioned ourselves for another strong year."

David W. Fesyk,
President & Chief Executive Officer

We entered the year 2000 on a tide of optimism as industry fundamentals staged a dramatic return from an extended slump. We had successfully weathered the storm and established a base of stability for our unitholders. Our game plan for 2000 was to capitalize on improving industry conditions by seeking opportunities for growth that would add value for our investors. And we delivered.

In response to higher oil prices, producers became more active in the service areas around our pipelines. By year end, our volumes were up 4,500 barrels per day compared to last year. We continued to tightly manage our costs and found ways to further optimize our systems. As a result, our operating margins continued to improve, increasing from $0.57 to $0.59 per barrel. We are now transporting oil more profitably than we ever have in the past. For our unitholders, improved business results translated into higher quarterly cash distributions. In September, we increased our distribution to $0.17 per unit per quarter.

Message to Unitholders

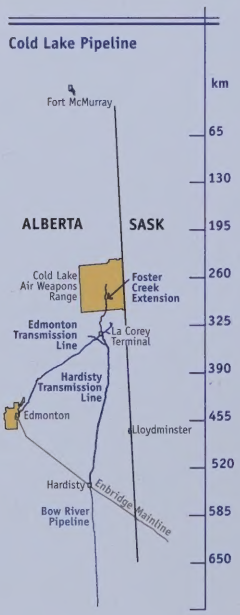
Meanwhile, we continued to build value in the business for the long term. We stepped outside our traditional oil gathering areas with a $50-million commitment to invest in a major new heavy oil pipeline serving the Cold Lake region in east-central Alberta. We also developed attractive new crude oil gathering and mainline expansion projects to strengthen the long-term competitive position of our systems.

Staying true to our game plan The rapid turnaround in industry conditions presented several new opportunities as well as new challenges for the Partnership in 2000. Higher drilling activity created the opportunity for three new battery connections on the Bow River and Mid-Saskatchewan Pipeline Systems. We invested approximately $2 million to capture those opportunities.

At the same time, we faced the challenge of changing oil supply and market demand patterns on our systems. On the Bow River Pipeline System, for example, we had to quickly adjust our truck terminal, field gathering and mainline operations to accommodate new volume from the Jenner and Suffield production areas. This supply-side challenge was unfolding just as downstream demand for Bow River crude in the Billings, Montana, market began ramping up to new record levels. Our engineers, field staff and pipeline schedulers showed creativity and true team spirit in making sure we met the changing needs of our customers. They responded to the challenge and, in the

process, identified market development and mainline expansion strategies that will benefit the Partnership down the road.

A new platform for growth In October, we were pleased to announce that Koch Pipelines Canada, L.P. would invest $50 million to become a 15% partner in the Cold Lake Pipeline Limited Partnership. This newly-formed partnership will create a major integrated heavy oil transportation system in the Cold Lake region of east-central Alberta. The Cold Lake Partnership's asset base, valued at $330 million, will include existing pipeline infrastructure and the construction of new, large-scale pipeline facilities. The result will be the largest heavy oil delivery system in Canada, consisting of over 800 kilometres of pipelines.



Initial installed capacity on the system will be an impressive 450,000 barrels per day. An attractive feature of this investment is the fact that approximately 70% of initial capacity is secured with shipping commitments from four major producers in the Cold Lake region: Imperial Oil Limited, Alberta Energy Oil & Gas, Canadian Natural Resources and Koch Petroleum Canada, L.P. These commitments will provide a base of stable, long-term cash flow. We also see excellent potential to capture additional upside on our investment through future connections to new thermal projects planned in the region.

Long-term thinking We firmly believe that sound business management goes hand-in-hand with a commitment to environmental excellence and to the health and safety of our employees and the communities in which we operate. In keeping with this core belief, some of our most important accomplishments last year relate to the significant progress we made in advancing our asset integrity, reliability and safety programs.

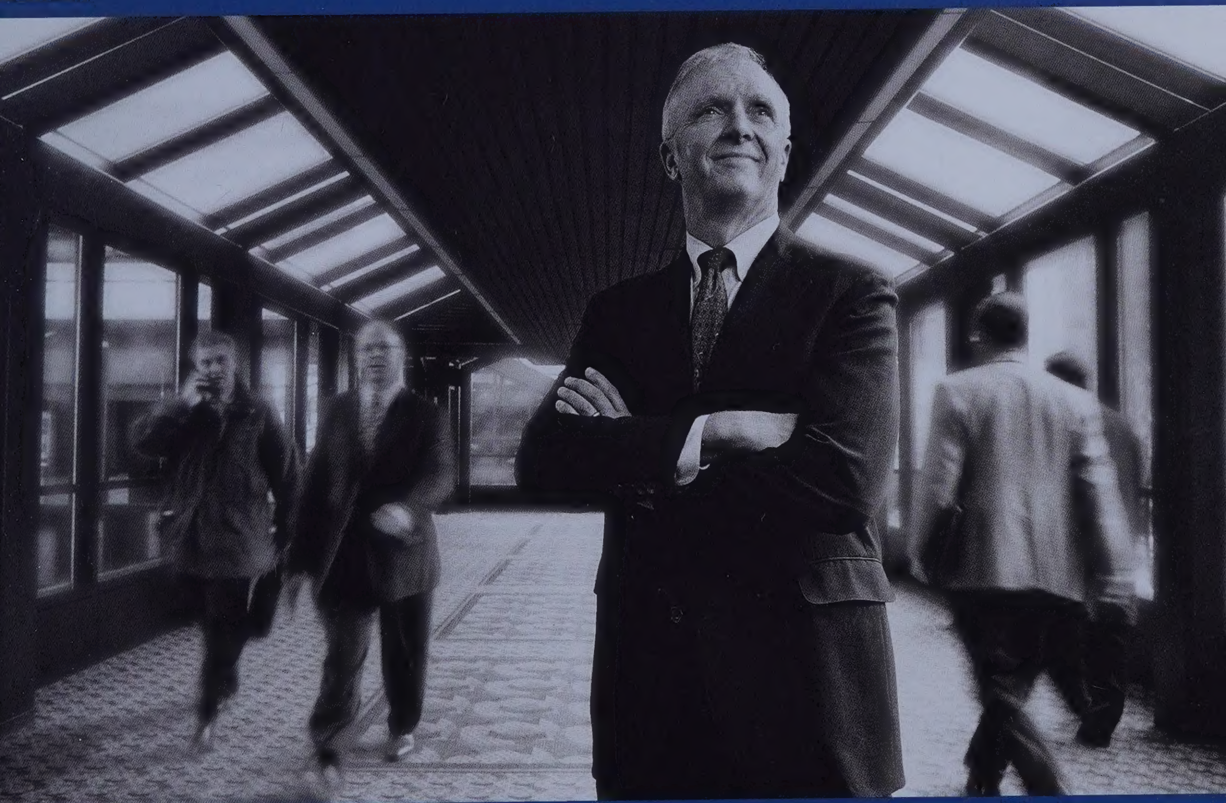
The ability to detect and quickly respond to potential product releases is absolutely critical in a business like ours. To this end, we advanced our program to install state-of-the-art leak detection systems on the highest volume mainline segments of our pipelines. Similarly, we completed the internal line inspection of 90 kilometres of pipeline to assess its current condition and verify the effectiveness of our corrosion prevention systems. We also cleaned and inspected nine storage tanks on our systems to ensure compliance with government regulations.

These types of programs can be costly — in 2000 we invested over $3 million in various asset integrity and reliability projects. Yet the benefits far outweigh those costs. For example, last year we achieved a major reduction in environmental incidents. Compared to 1999, we reduced reportable spills by 40% and total volumes spilled by 55%. Results like these are only achieved through formalized processes for continuous improvement and commitment from all levels in the organization.

Our accomplishments on the health and safety front were equally impressive. For the fifth year in a row, we achieved zero lost time accidents in our operations. Our record

"The substantial rise in our unit price is one of our big success stories in 2000. That tells me that investors are beginning to recognize the strength of our assets and the value of investing in a well-managed business."

Randolph C. Aldridge
Chairman of the Board of Directors



also earned the Partnership award recognition from both the Pipeline Operators Safety Council and the Alberta government's Partnership in Health & Safety Program.

Unit price rising We began the year with our Partnership units trading near a 52-week low. We were concerned that the public market's valuation of our business did not reflect the true strength and value of the Partnership's assets. However, we were confident that our unit price would strengthen if we continued to pursue our short and long-term strategies and deliver on our targets for stability and growth. In 2000, we did just that.

By year end the Partnership's units were trading at $5.70, representing a 54% gain from the low recorded in February. We are confident that public market appetite for investments generating stable cash income will remain strong in the coming year. Our stable business performance, hands-on management approach and tax-efficient yield are key attributes that we believe make Koch Pipelines Canada, L.P. an attractive investment for income-oriented investors.

The year ahead Our objective for the upcoming year is to build on the business performance and capital market momentum that we gained in 2000. As we entered the new year, sharply higher energy costs continued to make headlines across North America. In a business like ours, this environment can create significant new opportunity. It also introduces uncertainties and indirect impacts that need to be closely managed.

Strong world oil prices promote higher levels of drilling activity and the potential for higher throughputs on our pipeline systems. Our industry fundamentals remain strong in this regard, and we are aware of several oil development programs planned in our service corridors. The timing and ultimate scale of these developments, however, remain uncertain. At present, producers in western Canada are facing several challenges including a limited supply of drilling rigs and significantly higher input costs. We are also seeing many producers direct cash flow toward the development of natural gas reserves in preference to oil plays. Other factors such as wide light-to-heavy oil price differentials and escalating condensate costs are also influencing these decisions.

Despite these uncertainties, the Partnership anticipates the need for additional gathering and mainline expansion investments in 2001. On the Bow River Pipeline System, we expect to see further production growth from the Jenner and Suffield areas and plan to increase our gathering capacity to accommodate that growth. At the same time, declining U.S. production and planned refinery expansions in Billings, Montana, are expected to create another step change in demand for Bow River crude. The Partnership wants to position itself as the primary, long-term supplier to this market. Consequently, we intend to capitalize on this opportunity by expanding our southbound capacity by 25,000 barrels per day.

A major challenge in the year ahead comes in the wake of the Alberta government's move toward electrical deregulation. Since power is the Partnership's single largest operating expense, higher energy prices will have a profound impact on our cost structure. To control rising power costs, we have developed a risk management strategy that involves a financial hedge and changes to the way we operate our systems. Pipelines, unlike many industrial consumers, have the ability to shift power demand from peak-load periods to low-cost periods through the control of mainline injections from storage tanks. We are adjusting our scheduling accordingly to take advantage of this flexibility. We have addressed the non-variable portion of our power load by entering into a fixed-price contract. The alternative, pool pricing, has been extremely volatile in the early months of deregulation. Since new generating capacity will not be brought on line for several years, we believe it is prudent to mitigate the potentially adverse impacts of drastic hourly price fluctuations. These proactive measures give us a much clearer picture of our power costs in 2001.

In concert with our risk management strategy, the Partnership implemented a toll increase effective January 1, 2001. This increase is intended to offset expected increases in power costs, as well as planned asset integrity spending in 2001.

Overall, the Partnership is well positioned to navigate through the uncertainties of the year ahead. We will continue to maximize the profit potential of our assets while ensuring the long-term reliability of our systems. Furthermore, our balance sheet remains strong and relatively unlevered. This will provide financing flexibility as we pursue growth opportunities to complement our business and build on the solid foundation we've established.

Acknowledgements A large part of the credit for the Partnership's good results last year is due to our highly skilled and dedicated staff and a strong board whose members bring a depth of experience to the table. They're the real people behind the real value we're building for our unitholders. We'd like to thank them all for their continued commitment to improving on our performance and delivering results.

Submitted on behalf of management,

David Fesyk

DAVID W. FESYK
President and Chief Executive Officer
Koch Pipelines Canada Ltd.
March 19, 2001

"We can measure our operations performance through metrics such as cash flow per barrel, but that's only half the story. At Koch, operations excellence is also measured by how well we maintain our pipelines and how successful we are at protecting the environment, and the health and safety of our employees."

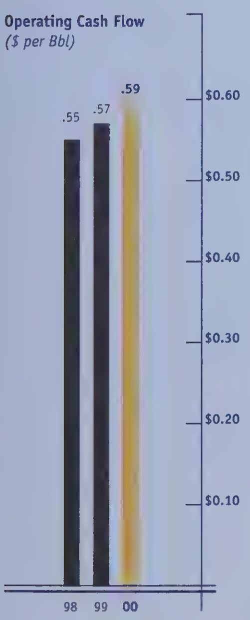
Frank Janzen
Vice President, Operations

Behind the positive business results achieved in 2000 is an operations excellence strategy that goes hand-in-hand with our growth strategy and focuses on efficiency, pipeline integrity and reliability and environmental health and safety.

Securing the integrity and reliability of our assets Maintaining the integrity and reliability of our pipeline assets has always been a cornerstone of our operations excellence. In 2000, we continued our program to upgrade our ability to remotely monitor and control our systems to keep them safe and reliable. We installed a state-of-the-art real time leak detection system on the highest volume mainline segment of the Koch Alberta Pipeline System. This technology, similar to the system we installed on the Bow River Pipeline System mainline the previous year, will allow us to detect and respond to potential releases more quickly, minimizing the potential of negative environmental impacts.

Operations Review 2000

Operating Cash Flow
($ per Bbl)



A key part of our asset integrity program is aimed at mitigating corrosion, one of the most common causes of pipeline failure. In compliance with increasing government regulations we employ advanced technologies to monitor and inhibit corrosion. We use leading-edge inspection tools to assess the condition of our pipelines and remove the build up of potentially corrosive substances. In 2000, we inspected 90 kilometres of our pipeline assets and will continue to advance this program in the coming year.

Meanwhile, we made great strides on our G-55 tank upgrade program in 2000 to ensure our tank assets conform to Alberta government regulations. In total, we cleaned, inspected, and where necessary, repaired nine storage tanks on our pipeline systems. We are well on track to complete the program during the fourth quarter of 2001. Costs for this program are offset by revenue from a toll surcharge, implemented in 1999.

While we are proud of the progress we have made in securing the integrity of our systems, we must constantly strive to fulfill the rising expectations of regulators, customers, investors and the public. To meet this ongoing challenge, we have created a Pipeline Integrity and Reliability Improvement Program, which we intend to implement in 2001. The program provides a formalized process for continuous

improvement that will enable us to better assess and mitigate operating risks, standardize compliance reporting and enhance employee training.

We are pleased to report that we scored yet another year — our fifth in a row — with zero lost time accidents. And for the third year in a row we earned an Alberta Oil and Gas Pipeline Operators Safety Council award, presented by Alberta Human Resources and Employment. Koch Pipelines Canada, L.P. is one of only 13 member companies (out of 280 members and associate members) of the Canadian Association

Koch Valley Pipeline System

LENGTH 242 km (151 miles)
DELIVERY POINT Cremona Pipeline at Madden, Alberta
CAPACITY 12.1 Mbbl/d
2000 THROUGHPUT 6.9 Mbbl/d of condensate

Koch Alberta Pipeline System

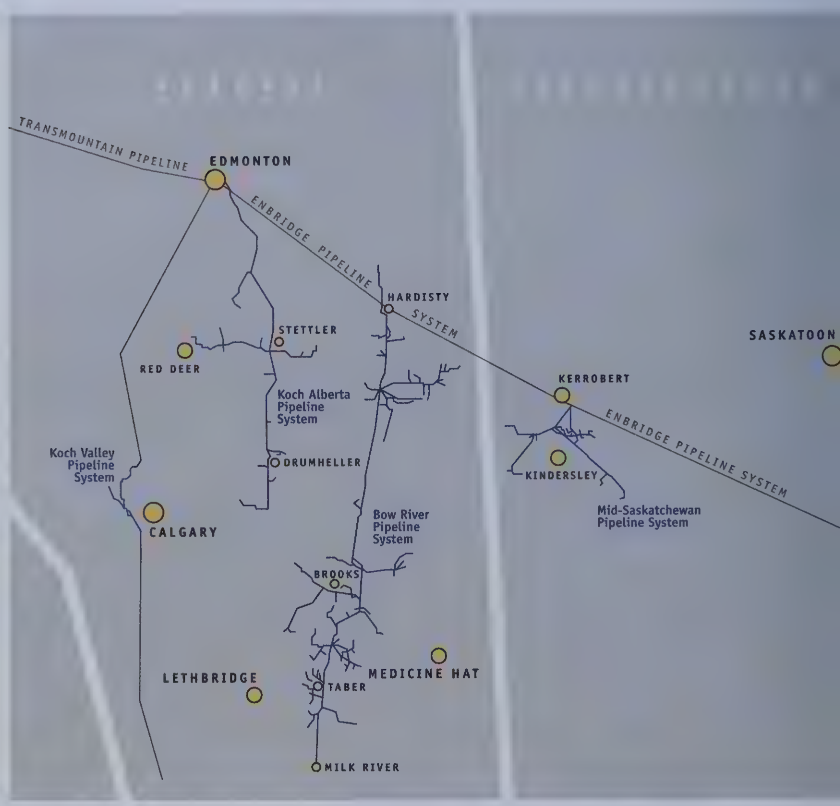
LENGTH 538 km (336 miles)
CAPACITY 73.9 Mbbl/d
2000 THROUGHPUT 43.1 Mbbl/d of light crude oil

Bow River Pipeline System

LENGTH 2,590 km (1,619 miles)
CAPACITY 256.0 Mbbl/d
2000 THROUGHPUT 160.3 Mbbl/d of Bow River Stream and light sour crude oil

Mid-Saskatchewan Pipeline System

LENGTH 555 km (347 miles)
CAPACITY 63.2 Mbbl/d
2000 THROUGHPUT 37.9 Mbbl/d of heavy blend and light sweet crude oil



of Petroleum Producers (CAPP) to hold a Certificate of Recognition from the Alberta government's Partnership in Health and Safety Program. Certification requires that a company achieve an 80% pass rate on an operations audit conducted by a third-party.

On the environment front, we continued to make progress, with substantial reductions in the number of environmental occurrences in 2000. We reduced reportable spills by 40% over the previous year and reduced total volumes spilled by 55% over 1999. We aim to improve on this performance in 2001.

"Our goal, quite simply, is to be the 'operator of choice' with respect to environment, health and safety performance in the eyes of regulators, customers, communities, employees and partners. Nothing less will do."

Rick Sawyer
Manager, Environment, Health & Safety

The Partnership participates in annual voluntary reporting of its greenhouse gas emissions through the national Voluntary Challenge and Registry (VCR) on climate change. In 2000, the report noted that the Partnership achieved a 22% reduction in greenhouse gas emissions in 1999 over the previous year. This performance was largely due to our improved operating practices and energy reduction initiatives.

Supporting our communities As a responsible business, we at Koch Pipelines Canada, L.P. believe in supporting the communities in which our employees live and work. Our Community Outreach Program provides assistance to a wide range of non-profit organizations that, like Koch, are committed to improving the quality of life in the regions where we operate. In 2000, we supported a number of organizations, including: Ducks Unlimited, whose mission is to conserve wetlands and associated habitat for the benefit of North America's waterfowl; Trout Unlimited, which works to protect and restore Canada's trout habitats; the Heartland Youth Centre in Stettler; and the Taber Cornfest.

Pursuing operations excellence Building on our successes of the past year, we will continue our pursuit of operations excellence on every front. Over the next 12 months we will focus on ensuring that our operating structure delivers maximum value as we strive to achieve our operational and environmental goals and meet the rising bar of expectations of our many partners.

On the cost front, we will increase our focus on the critical area of power optimization. We intend to become a more efficient and cost-effective consumer of power by ensuring we 'rightsize' our pumping equipment and by finding ways to shift power demand from peak-load to low-cost periods. In addition, we plan on making staffing adjustments to achieve an appropriate ratio of contract versus full-time employees in an effort to optimize our overall labour costs.

Our asset integrity and reliability program will continue on pace. We expect to complete our G-55 tank upgrade program in the coming year and will advance our internal pipeline inspection program. And in terms of environmental initiatives, we are planning to accelerate our program to remediate historical sites related to abandoned pipeline assets.

"Accountability is rule number one at Koch. From their very first day, each employee knows they're accountable both to the environment and to the communities in which we operate."

Bill Reamsbottom
Operations Technician

"We have always had adequate controls in place to ensure the reliability of our pipelines. But 'adequate' is not good enough or aggressive enough for the long-time player. Our new Pipeline Integrity and Reliability Improvement Program will make us even better, more efficient managers of our assets."

Brian Lore
Manager, Operations and Transportation

Average throughput volumes on the Partnership's pipelines increased in 2000 to 248,200 barrels per day, up 4,500 over 1999.

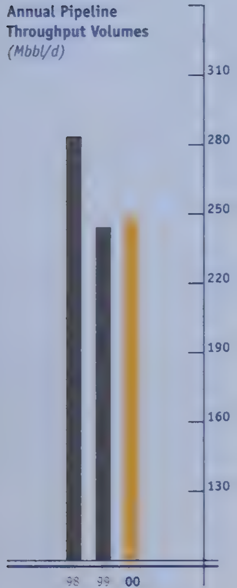
This increase was largely due to strengthening world oil prices and a resulting increase in development drilling in our service areas.

The year began with industry fundamentals returning from a prolonged slump and oil prices achieving historical high levels. Over the year, the WTI price per barrel averaged $30.20, compared to $19.24 for 1999. Spurred by price, producers responded with significant increases in oil well drilling in our service areas. The number of wells drilled was up more than 50%, from 575 in 1998 and 603 in 1999 to 924 in 2000. Drilling activity was particularly prominent around the Suffield block and Jenner lateral on the Bow River Pipeline System. Strong crude oil prices also supported ongoing maintenance and workover programs to optimize producing wells.

As a result of this increased drilling activity, throughput volumes on the Bow River Pipeline System started to rise significantly in the third quarter of 2000 as new production from the Jenner and Suffield areas came on stream. However, in the fourth quarter of 2000, a number of factors dampened increases in crude oil production. In particular, many producers were focusing their attention on natural gas development programs in light of very strong natural gas prices and a fall in crude oil netback prices due to widening light-to-heavy crude oil differentials and rising condensate costs.

Management's Discussion & Analysis

Annual Pipeline Throughput Volumes
(Mbbl/d)



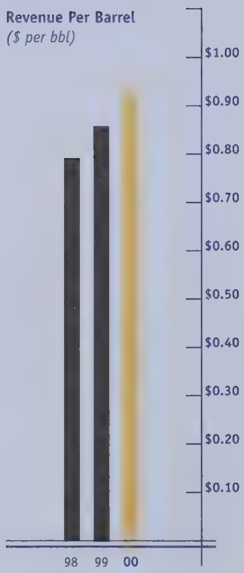
During the fourth quarter of 2000, the fall in the netback price for the Bow River stream also led to migration of volumes which had historically been part of the Bow River stream to other pipeline streams. For example, to attain a higher netback price some Bow River stream volumes shifted to the Koch Alberta stream in October and November, and then to the Bow River light stream in December. These volume migrations introduced monthly fluctuations in individual pipeline streams, but the majority of these migrations were between the Partnership's pipeline systems.

Results from operations In 2000, the Partnership generated total revenue of $83 million, an 8% increase over the previous year. The growth in revenue was driven by a 4,500-barrel increase in average daily throughput volumes to 248,200 barrels per day and a 6% rise in average revenue per barrel.

Average Daily Throughput

(thousands of barrels per day)	2000	1999	1998	1997	1996
Bow River Pipeline System:					
Bow River crude oil	**140.4**	141.8	157.6	165.2	166.0
Light sour crude oil	**19.9**	20.2	25.0	27.4	31.8
Pipeline system total	**160.3**	162.0	182.6	192.6	197.8
Koch Alberta Pipeline System:					
Light sour crude oil	**43.1**	37.4	47.2	60.0	62.6
Light sweet crude oil	**–**	1.3	2.9	3.5	4.1
Pipeline system total	**43.1**	38.7	50.1	63.5	66.7
Mid-Saskatchewan Pipeline System:					
Heavy blend crude oil	**27.8**	25.0	31.2	29.7	18.8
Light sweet crude oil	**10.1**	10.5	12.6	13.4	13.3
Pipeline system total	**37.9**	35.5	43.8	43.1	32.1
Koch Valley Pipeline System:					
Condensate	**6.9**	7.5	6.4	7.2	6.4
Total Pipeline Systems:	**248.2**	243.7	282.9	306.4	303.0

Revenue Per Barrel
($ per bbl)



The flexible nature of the Partnership's market-based toll structure facilitated the introduction of several toll increases during the year. Average revenue per barrel increased to $0.92 in 2000 from $0.87 in the previous year. Factors that contributed to the growth in revenue per barrel included:

- Full-year collection of the toll surcharge implemented to recover G-55 tank upgrade costs.
- Gathering toll increases, effective January 1, 2000, on selected line segments and areas in response to local volume declines over the past two years.
- Truck terminal toll increases to offset lower volumes and increased costs.
- Changing receipt and delivery patterns. For example, southbound deliveries on the Bow River Pipeline System attract higher tolls compared to northbound shipments.

Operating expenses of $26 million were $3 million higher than the previous year but were in line with expectations. During 2000, additional funding was allocated to maintaining the asset integrity and reliability of the Partnership's assets. The G-55 tank upgrade program was advanced and remains on pace to be completed by the regulatory deadline of October 31, 2001. Resources, including equipment and labour, were added to improve the pipelines' measurement accuracy. The Partnership also experienced higher property taxes associated with capital additions. The financial impact of higher operating costs was offset by toll increases introduced over the past two years and, as a result operating cash flow per barrel increased by $0.02 to reach an all-time high of $0.59 per barrel.

General and administrative expenses of $4 million were consistent with the costs incurred in 1999.

Depreciation expense for 2000 of $43 million compares to $47 million in 1999. Capital assets are depreciated on a declining balance basis over the estimated service life, commencing when the assets are placed in service. The estimated service life of pipeline assets is determined with reference, together with other factors, to the estimated remaining service life of the crude oil reserves expected to be gathered on the particular pipeline systems. The Partnership's pipeline and pumping assets have service lives which typically range from 15 to 25 years.

The management fee of $1 million was in line with the previous year. Koch Pipelines Canada Ltd. (the 'General Partner') is paid 2% of 'Operating Cash' as defined in the Partnership Agreement.

In 2000, the Partnership generated net income of $9 million, or $0.12 per unit, compared to a loss of $1 million, or $0.01 per unit in 1999, primarily as a result of higher revenue and lower depreciation expense in 2000.

Koch Canada-funded capital and pipeline inspection expenditures

There is a distinction between capital and pipeline inspection projects funded by the Partnership and those funded by KPG Canada Ltd. and its Canadian affiliates ('Koch Canada'). When the Partnership's assets were acquired from the General Partner on November 27, 1997, certain capital improvements and a pipeline inspection and repair program were ongoing. The estimated costs of these projects were $20 million and $10 million respectively. In conjunction with the sale of the pipeline assets, the Partnership paid $30 million to an affiliate of the General Partner to complete these projects on the Partnership's behalf. All cash outlays related to the capital improvements program will be for the account of Koch Canada. Under the pipeline inspection and repair program, Koch Canada is responsible for costs up to $10 million. The capital improvement program costs are being capitalized and the pipeline inspection and repair costs are being expensed as the expenditures are incurred.

During 2000, approximately 117 kilometres of pipeline were inspected and repaired under the $10-million pipeline inspection program at a cost of $1 million. Approximately $5 million remains of the original $10-million prepaid balance.

Approximately $0.4 million was spent under the Koch Canada-funded $20-million capital improvements program to replace a three-kilometre segment of pipeline between Hussar and Drumheller on the Koch Alberta Pipeline System.

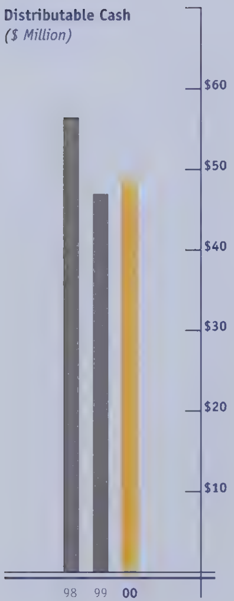
Partnership-funded Capital Expenditures In 2000, capital expenditures funded by the Partnership totaled approximately $5 million. These expenditures largely involved a number of pipeline connections and expansions, including preliminary expenditures relating to the Jenner and Suffield expansions scheduled for 2001 on the Bow River Pipeline System. In addition, investments were made to the Partnership's

management information systems to improve the reliability and effectiveness of its day-to-day operational capabilities.

Cold Lake Pipeline Limited Partnership The Partnership announced in October 2000 that it will invest $50 million to become a 15% partner in the Cold Lake Pipeline Limited Partnership. This recently formed limited partnership will develop and own a major heavy oil transportation system in the Cold Lake region of east-central Alberta. AEC Pipelines, L.P. ('AEC') and Canadian Natural Resources Limited will hold 70% and 15% respectively in the limited partnership.

The Cold Lake Pipeline Limited Partnership will create an integrated oil delivery system through the combination of existing pipeline infrastructure and the construction of new facilities. Major elements of the system will include AEC's existing Cold Lake Pipeline assets; a new extension to gather oil produced in the Foster Creek area ('Foster Creek Extension'); and the proposed construction of a new 250-kilometre, 24-inch diameter heavy blend transmission line from LaCorey to Hardisty, Alberta ('Hardisty Transmission Line'). These combined assets will initially provide heavy oil shipping capacity of 450,000 barrels per day.

Distributable Cash
($ Million)



In concert with the formation of the limited partnership, Cold Lake Pipeline Limited Partnership has signed a transportation service agreement with four major oil producers in the Cold Lake region: Imperial Oil Limited, Alberta Energy Oil & Gas, Canadian Natural Resources and Koch Petroleum Canada, L.P. These producers have provided throughput commitments totalling over 315,000 barrels per day for an initial term of 10 years. In addition, each producer has dedicated current and future oil reserves to the Cold Lake Pipeline System. A reserve dedication area, spanning more than three million acres, has been established around the Cold Lake Pipeline Limited Partnership's gathering assets. The Cold Lake Pipeline Limited Partnership has the right to transport production from these initial shippers from this area for the life of the dedicated reserves.

The Partnership's initial $50-million investment will be made on a progressive basis as it meets cash calls to fund construction of the Foster Creek Extension and the Hardisty Transmission Line.

Distributable Cash In terms of financial performance, 2000 was a much stronger year than 1999. The Partnership increased unitholder distributions to $48 million, or $0.66 per unit — a $1.5-million, or $0.02 per unit, increase over the previous year.

In 2000, the Partnership generated Distributable Cash before reserves of $52 million, or $0.70 per unit, compared to $49 million, or $0.67 per unit, in the previous year. An amount of $3 million was dedicated to the 'Reserve to be used for planned capital and maintenance projects' for programs such as the G-55 tank upgrade program. A further

$0.3 million was added to the 'Reserve to be used for future distributions'. Since inception of the Partnership, $2 million, or $0.02 per unit, has been accumulated in this reserve, which is available for future distributions to unitholders.

Liquidity and capital resources The Partnership has in place a committed $50-million unsecured revolving credit facility with a Canadian chartered bank. As at December 31, 2000, the balance outstanding under this facility was $0.4 million.

The Partnership accumulates cash from operations over the course of a quarter pending distributions to unitholders. The timing difference between the inflow of cash from operations and the payment of distributions to unitholders has historically created a temporary cash surplus at each quarter end. This surplus has been used to temporarily reduce debt and minimize interest expense.

It is the Partnership's intention to fund a portion of its capital expenditures from debt. To ensure the financial statements correctly reflect this intention, management is currently in discussions with a Canadian chartered bank to establish a 'set-off' facility. This facility will also allow the Partnership to utilize surplus cash balances to minimize interest expense. If the Partnership had a 'set-off' facility in place as at December 31, 2000, 'Bank loans' would have been $15.5 million and 'Cash' would have been $15.1 million. When the 'set-off' facility is established an initial loan draw-down of $15.5 million will be made. This amount reflects the portion of capital expenditures the Partnership has funded from debt since inception of the Partnership.

The Partnership intends to finance its $50-million investment in the Cold Lake Pipeline Limited Partnership using debt financing. Management is currently negotiating with a Canadian chartered bank for additional financing to fund this investment. The major portion of the cash calls relating to this investment are scheduled for the second half of 2001.

Outlook The key drivers behind the Partnership's throughput volumes are crude oil prices and the level of crude oil drilling activity in its service corridors. World oil prices remain strong and we are aware of several oil development programs planned in our service corridors. The timing and ultimate scale of these developments however remains uncertain. In today's environment of high prices for both crude oil and natural gas, western Canadian producers are faced with a limited supply of drilling rigs and higher operating costs. These factors, combined with wide light-to-heavy crude oil differentials and rising condensate costs is leading producers to target natural gas programs in preference to oil. However, the Partnership still expects to see production growth on the Bow River Pipeline System in the Jenner and Suffield areas and plans to increase gathering capacity to accommodate this growth.

In 2001, management is expecting a significant increase in power costs largely as a result of the deregulation of the Alberta electricity market. The Partnership is also planning to complete it's G-55 tank upgrade program and a number of other asset integrity and reliability projects in 2001. As a result, operating costs will be higher in 2001. However, the financial impact of these programs on operating cash flow and distributions is expected to be minimal as the Partnership introduced a toll increase effective January 1, 2001, to offset these costs.

Business risks The Partnership's goal is to maintain stable distributions while pursuing growth opportunities that will enhance cash distributions to the unitholders. However, a number of inherent risks exist that may cause fluctuations in the Partnership's distributions.

Future throughput and replacement of crude oil reserves will be dependent upon the success of producers to develop existing reserves, and to find and produce additional reserves, in the Partnership's service corridors. Without such developments, the volumes of crude oil transported through the pipelines will decline over time as reserves are depleted. Crude oil production is also a function of crude oil prices, and a sustained low price may result in additional production declines due to fewer wells being drilled, reduced well maintenance and possibly deliberate shut-ins. In most instances, the Partnership does not have long-term ship-or-pay contracts with producers in its service areas. Therefore, if production declines due to depletion of resources, low crude oil prices or other factors, producers are not required to ship specific volumes of crude oil on the Partnership's pipeline systems and volumes and revenues on the systems may decline. The pipelines are subject to competition for volumes transported by truck to other pipelines near the areas serviced by the Partnership's pipelines. While competing pipelines could be constructed in areas served by the Partnership, we are not aware of any current plans to do so.

The Partnership's operations are subject to the customary hazards of the crude oil transportation business. Its operations could be interrupted by failures of pipelines, pumps and equipment, or natural disasters or other events beyond the Partnership's control. Crude oil pipelines have historically had the best safety record in the North American hydrocarbon transportation industry. Compared to natural gas pipelines, crude oil pipelines have a lower risk of incidents such as fire or explosion. The principal risks associated with crude oil pipelines are the property damage and cleanup expenses incurred by unintended discharges, or increased obligations imposed by new or revised regulations. The Partnership undertakes a number of preventative initiatives to promote safe and efficient operation and to mitigate the risk of loss from pipeline leaks and crude oil spills. Also, the Partnership carries insurance that provides coverage for business interruption and sudden and accidental discharges under certain circumstances.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of Koch Pipelines Canada, L.P. (the "Partnership") and all information in this Annual Report are the responsibility of the management of the General Partner, Koch Pipelines Canada Ltd., and have been approved by the Board of Directors of Koch Pipelines Canada Ltd., on behalf of the Partnership. The financial statements have been prepared by the General Partner in accordance with Canadian generally accepted accounting principles and include certain estimates that reflect the General Partner's best judgements. Financial information contained throughout this Annual Report is consistent with these financial statements.

The General Partner has developed and maintains an extensive system of internal controls that provides reasonable assurance that all Partnership transactions are accurately recorded, that the Partnership's financial statements realistically report the operating and financial results and that the Partnership's assets are safeguarded.

In accordance with the Partnership Agreement, Ernst & Young LLP, an independent firm of chartered accountants, was appointed by the General Partner to audit the Partnership's financial statements and provide an independent professional opinion.

Koch Pipelines Canada Ltd. (General Partner), on behalf of Koch Pipelines Canada, L.P.

David W. Fesyk
President and Chief Executive Officer

Scott D. Gerla, C.A.
Vice President, Finance

Financial Statements

AUDITORS' REPORT

To the Partners of Koch Pipelines Canada, L.P.

We have audited the balance sheets of Koch Pipelines Canada, L.P. (the "Partnership") as at December 31, 2000 and 1999 and the statements of partners' equity, operations and distributable cash, and cash flows for the years then ended. These financial statements are the responsibility of the management of Koch Pipelines Canada Ltd. (the "General Partner") on behalf of the Partnership. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in Canada.

Ernst & Young LLP
Chartered Accountants

Calgary, Canada
January 19, 2001

Balance Sheets

As at December 31 (thousands of dollars)	*2000*	*1999*
ASSETS		
Current		
Cash [note 3]	**$ –**	$ 11,111
Accounts receivable [note 8]	**23,718**	17,597
Prepaid expenses	**347**	42
	24,065	28,750
Deferred capital and pipeline inspection expenditures [note 4]	**6,155**	7,540
Investment in Cold Lake Pipeline Limited Partnership [note 5]	**2,338**	–
Capital assets [note 6]	**552,070**	589,154
	$ 584,628	$ 625,444
LIABILITIES AND PARTNERS' EQUITY		
Current		
Bank indebtedness [note 3]	**$ 373**	$ –
Distributable Cash payable [notes 7 and 8]	**12,444**	11,712
Accounts payable and accrued liabilities [note 8]	**22,081**	15,615
	34,898	27,327
Bank loans [note 3]	**–**	8,850
Partners' equity		
Class A Limited Partnership units	**281,624**	301,879
Class B General Partner units	**268,106**	287,388
	549,730	589,267
	$ 584,628	$ 625,444

Commitment [note 5]

See accompanying notes

On behalf of the Board of Koch Pipelines Canada Ltd.,
as General Partner of the Partnership:

Director *Director*

Statements of Partners' Equity

Year ended December 31 (thousands of dollars, except for units)	Class A Limited Partnership Units	Class B General Partner Units	Total
Partners' equity, December 31, 1998	**$ 326,290**	**$ 310,627**	**$ 636,917**
Net loss for the year	(411)	(391)	(802)
Distributions	(24,000)	(22,848)	(46,848)
Partners' equity, December 31, 1999	**301,879**	**287,388**	**589,267**
Net income for the year	4,495	4,280	8,775
Distributions	(24,750)	(23,562)	(48,312)
Partners' equity, December 31, 2000	**$ 281,624**	**$ 268,106**	**$ 549,730**
Number of units outstanding [note 7]:			
December 31, 2000 and 1999	**37,500,000**	**35,700,000**	**73,200,000**

See accompanying notes

Statements of Operations and Distributable Cash

Year ended December 31 (thousands of dollars, except per unit amounts)	2000	1999
REVENUE	**$ 83,133**	$ 76,958
EXPENSES		
Operating	**25,614**	22,430
General and administrative	**3,750**	3,843
Pipeline inspection expenditures	**1,008**	2,970
	30,372	29,243
Income before the following deductions	**52,761**	47,715
Depreciation	**42,510**	47,258
Management fees	**1,106**	1,036
Interest expense	**370**	223
Net income (loss) for the year	**8,775**	(802)
Add (deduct)		
Depreciation	**42,510**	47,258
Capital and pipeline inspection expenditures prepaid by the Partnership	**1,385**	4,378
Proceeds on sale of capital assets	**403**	114
(Gain) loss on sale of capital assets	**(10)**	193
Investment in Cold Lake Pipeline Limited Partnership	**(2,338)**	–
Financing related to investment in Cold Lake Pipeline Limited Partnership	**2,338**	–
Capital expenditures incurred	**(5,819)**	(9,894)
Net financing related to capital expenditures	**4,320**	7,850
Reserve to be used for planned capital and maintenance projects	**(2,920)**	–
Reserve to be used for future distributions	**(332)**	(2,249)
Distributable cash paid/payable for the year	**$ 48,312**	$ 46,848
Per Class A and B unit amounts [note 7]		
Net income (loss)	**$ 0.12**	$ (0.01)
Distributable cash paid/payable	**$ 0.66**	$ 0.64

See accompanying notes

Statements of Cash Flows

Year ended December 31 (thousands of dollars)	*2000*	*1999*
OPERATING ACTIVITIES		
Net income (loss) for the year	$ 8,775	$ (802)
Depreciation	42,510	47,258
Reduction in deferred pipeline inspection expenditures	1,008	2,970
(Gain) loss on sale of capital assets	(10)	193
Cash flow from operations	52,283	49,619
Net change in non-cash working capital	40	1,694
Cash provided by operating activities	52,323	51,313
INVESTING ACTIVITIES		
Investment in Cold Lake Pipeline Limited Partnership	(2,338)	–
Additions to capital assets	(5,442)	(8,486)
Proceeds on sale of capital assets	403	114
Cash used in investing activities	(7,377)	(8,372)
FINANCING ACTIVITIES		
Partnership distributions	(47,580)	(48,312)
(Decrease) increase in bank loans	(8,850)	7,850
Cash used in financing activities	(56,430)	(40,462)
(Decrease) increase in cash during the year	(11,484)	2,479
Cash, beginning of year	11,111	8,632
(Bank indebtedness) cash, end of year	$ (373)	$ 11,111

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

December 31, 2000 and 1999
(tabular amounts in thousands of dollars)

1. STRUCTURE OF THE PARTNERSHIP

The Partnership was formed as a limited partnership under the laws of Alberta pursuant to an agreement dated October 9, 1997 (the "Partnership Agreement"). Koch Pipelines Canada Ltd. is the General Partner. On November 27, 1997 the Partnership acquired its pipeline assets from the General Partner and sold 37,500,000 Class A units to the public. The General Partner retained 35,700,000 Class B units in the Partnership.

The Partnership's business activities are related to the transportation, storage, marketing, and processing of hydrocarbons in Canada.

The Partnership is dependent on the General Partner for the administration and management of all matters relating to the operation of the Partnership.

Under the Partnership Agreement, the General Partner is entitled to recover all direct and indirect expenses, including general and administrative expenses, incurred on behalf of the Partnership. The General Partner also receives an annual base fee equal to 2% of the Partnership's annual "Operating Cash" as defined in the Partnership Agreement. In addition, the General Partner is entitled to earn an annual incentive fee of between 15% and 35% of the Partnership's annual Distributable Cash in excess of $1.01 per unit to $1.19 per unit respectively; an acquisition fee of 1.0% of the purchase price of any assets acquired by the Partnership (excluding the pipeline assets originally acquired); and a disposition fee of 0.5% of the sale price of any assets sold by the Partnership.

The Partnership will distribute, on a quarterly basis, Distributable Cash to holders of the Partnership Units. Distributable Cash is defined in the Partnership Agreement and generally means net income of the Partnership, adjusted for non-cash items and further adjusted for certain reserves, and is intended to allow the Partnership to retain cash as required to meet its ongoing liquidity and capital requirements.

Under existing tax legislation, the Partnership is not subject to income taxes directly. The limited and general partners of the Partnership are subject to tax on their proportionate interests of the taxable income allocated by the Partnership.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Capital assets

Expenditures for system expansion and major renewals and betterments are capitalized; maintenance and repair costs are expensed as incurred. Depreciation of pipeline facilities and equipment commences when the pipelines are placed in commercial operation and is provided on a declining balance basis over their estimated service lives which range from 15 to 25 years. The service life for pipeline systems is determined with reference, together with other factors, to the estimated remaining life of the crude oil reserves expected to be gathered on the particular pipeline systems. Costs related to assets under construction are not depreciated until they are put into service.

Future site restoration and abandonment costs

Pipeline operations will be charged with any costs associated with the future site restoration and abandonment of the pipeline assets. The potential costs of abandonment will be a function of several factors, including regulatory requirements at the time of abandonment, the size of the pipeline and the pipeline's location. Abandonment requirements can vary considerably, ranging from emptying the pipeline to removal of the pipeline and reclamation of the right-of-way.

It is expected that portions of the pipeline assets will be abandoned over time, and the costs of smaller abandonments, not expected to be material in any particular year, will be charged to operating expense in the year of abandonment. At such time as the timing and cost of abandoning substantial portions of the pipeline assets can reasonably be determined, estimated costs will be provided over the remaining life of the pipeline assets. To date, no provision for such future costs has been recorded.

Measurement Uncertainty

The amounts recorded for depreciation of capital assets and the projections of future site restoration and abandonment costs are based on estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future years could be significant.

Investment in Cold Lake Pipeline Limited Partnership

The investment in Cold Lake Pipeline Limited Partnership ("Cold Lake Pipeline") is accounted for using the equity method. Under the equity method of accounting, the cost of the Partnership's investment in Cold Lake Pipeline is increased (decreased) by the Partnership's pro rata share of the Cold Lake Pipeline income (loss) and reduced by any distributions declared by the Cold Lake Pipeline.

The investment in Cold Lake Pipeline is carried at the lower of cost and estimated net realizable value.

Financial Instruments

Financial instruments of the Partnership consist of cash, accounts receivable, Distributable Cash payable, accounts payable and accrued liabilities and bank loans. There are no material differences between the carrying amounts of these financial instruments reported on the balance sheet and their estimated fair values.

The Partnership utilizes derivative financial instruments to manage its exposure to changes in interest rates. The gain or loss on interest rate swaps will be recognized at the time of settlement as an adjustment to interest expense.

3. OPERATING CREDIT FACILITY

The Partnership has a committed $50-million unsecured revolving credit and term loan facility with a Canadian chartered bank. The facility is fully revolving for 364-day periods with provision for extensions at the option of the lender following notice from the Partnership. If not extended, the facility converts to a non-revolving reducing facility to be repayable in full by the end of two years.

Advances under the facility are available in Canadian and/or U.S. dollar equivalents and bear interest at the lender's rates for Canadian or U.S. base rate loans, at Banker's Acceptances rates, or at LIBOR, plus applicable margins. The lenders' prime rate was 7.5% at December 31, 2000 (1999 - 6.5%).

The Partnership has entered into forward start swap agreements totaling $50 million with a Canadian chartered bank effective December 31, 2001. The effective interest rate of the swaps will float at market rates until December 31, 2001. For ten years thereafter, the interest rate will be fixed at 6.3%. The swaps were entered into to reduce the interest rate exposure associated with the Cold Lake Pipeline investment (see note 5).

4. DEFERRED CAPITAL AND PIPELINE INSPECTION EXPENDITURES

	2000	1999
Capital expenditures	$ **1,127**	$ 1,504
Pipeline inspection expenditures	**5,028**	6,036
	$ **6,155**	$ 7,540

On November 27, 1997 certain capital improvements and a pipeline inspection and repair program were ongoing with respect to the assets acquired from the General Partner. The estimated costs of these two projects were $20 million and $10 million respectively. Concurrent with the sale of the pipeline assets to the Partnership, the Partnership paid $30 million to an affiliate of the General Partner to complete the programs on the Partnership's behalf. The capital improvements are capitalized and the inspection and repair costs are charged to expense when the expenditures are made by the affiliate with no cash outlay by the Partnership.

5. INVESTMENT IN COLD LAKE PIPELINE LIMITED PARTNERSHIP

On October 5, 2000 the Partnership entered into the Cold Lake Pipeline Limited Partnership Agreement ("Cold Lake Agreement"). The Partnership has committed to contribute initial capital to the Cold Lake Pipeline of approximately $50 million by April 2002, which represents 15% of the fair value of the total initial capital to be contributed by all partners.

The Cold Lake Pipeline will own several assets including the "Existing Cold Lake Pipeline System", a new pipeline system to be constructed from Foster Creek to LaCorey, Alberta, known as the "Foster Creek Lateral Connection", and a new pipeline from LaCorey to Hardisty, Alberta, known as the "Cold Lake Pipeline Expansion Project". The Cold Lake Pipeline Expansion Project was formerly known as the "Thicksilver Pipeline Project". Collectively these three assets will comprise the "New Cold Lake Pipeline System".

The Cold Lake Pipeline has entered into long-term Transportation Service Agreements with four initial founding shippers concurrent with the Cold Lake Agreement.

Prior to May 1, 2005, income earned and distributable cash generated by the Existing Cold Lake Pipeline System and the Cold Lake Pipeline Expansion Project are to be allocated to the partners pursuant to the terms of the Cold Lake Agreement. All income earned and distributable cash generated from the take-or-pay contracts that had been entered into by the majority partner, prior to creation of the Cold Lake Pipeline, will accrue to the majority partner. The Partnership will receive 30% of all other income earned and distributable cash generated by these two systems. The Partnership will receive 15% of income earned and distributable cash generated from the Foster Creek Lateral Connection.

After April 30, 2005, the Partnership will receive 15% of all income earned and distributable cash generated by the New Cold Lake Pipeline System.

Pursuant to the Cold Lake Pipeline Indemnity and Support Agreement, the Partnership has agreed to guarantee the parent of the majority partner of the Cold Lake Pipeline for up to 15% of any Transportation Service Agreement performance-related obligation the parent must honor, with respect to the Cold Lake Pipeline, under the performance guarantee granted to one of the founding shippers.

The participating percentage amounts referred to above are subject to change should a partner elect not to participate in an expansion project.

The costs incurred in the investment in the Cold Lake Pipeline to December 31, 2000 totaling $2.3 million are comprised of capital contributions, legal costs, permitting fees and interest charges. The Partnership paid an affiliate $0.4 million for recovery of third party permitting and legal fees. The interest capitalized to December 31, 2000 was not material.

6. CAPITAL ASSETS

	2000	*1999*
Pipeline facilities and equipment	**$ 686,672**	$ 677,146
Construction in progress	**6,025**	10,133
	692,697	687,279
Accumulated amortization	**(140,627)**	(98,125)
	$ 552,070	$ 589,154

7. NET INCOME AND DISTRIBUTABLE CASH

Class A and B units share equally on a pro rata basis in the allocation of net income and Distributable Cash. The amount reported for net income and Distributable Cash per Class A and B unit is based on the pro rata share and the weighted average number of Class A and B units outstanding for the year.

8. RELATED PARTY TRANSACTIONS

Revenue includes $2.2 million (1999 - $3.3 million) earned from affiliates of the General Partner in the normal course of operations. These amounts are recorded at their exchange amounts.

Operating and general and administrative expenses include direct costs incurred by affiliates of the General Partner on the Partnership's behalf and an allocation of operating and general and administrative expenses from those affiliates based primarily on time spent on the activities associated with Partnership operations. Such amounts are incurred in the normal course of operations and are recorded at an estimate of the cost for such expenses.

Amounts due from/to the General Partner and its affiliates are non-interest bearing and have no fixed repayment terms. At December 31, 2000, balances payable between the Partnership and affiliates of the General Partner include $4.2 million (1999 - $2.4 million) in accounts receivable and $12.8 million (1999 - $2.0 million) in accounts payable and accrued liabilities. Included in Distributable Cash payable is $6.1 million (1999 - $5.7 million) payable to the General Partner.

9. MAJOR CUSTOMER

In 2000, one customer accounted for approximately 11% of the revenue of the Partnership.

10. COMPARATIVE FIGURES

Certain of the prior year's comparative figures have been reclassified to conform with the current year's presentation.

Unitholders' Tax Allocation

For 2000 operations, the Partnership declared and paid cash distributions totalling $0.66 per unit. The 2000 taxable income amounts to approximately 48.25% of the total cash distributions. The remaining 51.75% is considered a tax-deferred return of capital.

The following information is provided to assist Partnership unitholders in preparing their income tax returns; however, this information is of a general nature only and is not intended to be legal or tax advice to any particular unitholder. We advise unitholders to seek professional advice.

Partnership units held within an RRSP, RRIF or DPSP No amounts are required to be reported for taxation purposes if the units are held within a RRSP (Registered Retirement Savings Plan), RRIF (Registered Retirement Income Fund), or DPSP (Deferred Profit Sharing Plan).

Partnership units held outside an RRSP, RRIF or DPSP Individual unitholders are taxable on their share of the Partnership's income for tax purposes. The amount of income allocated to a unitholder may be more or less than the amount of cash distributed to the unitholder during the year. For tax purposes, taxable income allocated to a unitholder will increase the carrying value of the cost base of the unitholder's investment in the Partnership.

Adjusted cost base of partnership units The adjusted cost base is used in calculating the capital gain or loss on the eventual disposition of the Partnership units held as capital property by the unitholder. When an individual unitholder disposes of their investment in the Partnership, a capital gain or capital loss may arise. A capital gain or loss is determined by subtracting the adjusted cost base of the Partnership units from the proceeds (net of selling commissions) of disposition.

To arrive at the adjusted cost base of the unitholder's investment in the Partnership, subtract the cumulative amount of all cash distributions received from the original cost of the investment (including any broker fees incurred on acquisition), then add the taxable income allocated and reported by the unitholder in the current and prior tax returns.

Record Date	*Payment Date*	*Cash Distributions (per unit)*	*Allocation of Income for Tax Purposes (per unit)*	*Return of Capital (per unit)*
December 31, 1997	January 30, 1998	$ 0.07	Nil	$ 0.07
Total 1997:		**$ 0.07**	**Nil**	**$ 0.07**
March 31, 1998	April 30, 1998	$ 0.22	$ 0.080	$ 0.140
June 30, 1998	July 30, 1998	$ 0.18	$ 0.065	$ 0.115
September 30, 1998	October 30, 1998	$ 0.19	$ 0.069	$ 0.121
December 31, 1998	January 30, 1999	$ 0.18	$ 0.065	$ 0.115
Total 1998:		**$ 0.77**	**$ 0.279**	**$ 0.491**
March 31, 1999	April 30, 1999	$ 0.16	$ 0.053	$ 0.107
June 30, 1999	July 30, 1999	$ 0.16	$ 0.053	$ 0.107
September 30, 1999	October 30, 1999	$ 0.16	$ 0.053	$ 0.107
December 31, 1999	January 31, 2000	$ 0.16	$ 0.053	$ 0.107
Total 1999:		**$ 0.64**	**$ 0.212**	**$ 0.428**
March 31, 2000	April 28, 2000	$ 0.16	$ 0.077	$ 0.083
June 30, 2000	July 31, 2000	$ 0.16	$ 0.077	$ 0.083
September 29, 2000	October 31, 2000	$ 0.17	$ 0.082	$ 0.088
December 29, 2000	January 31, 2001	$ 0.17	$ 0.082	$ 0.088
Total 2000:		**$ 0.66**	**$ 0.318**	**$ 0.342**
Total:		**$ 2.14**	**$ 0.809**	**$ 1.331**

Statement of Governance Practices

The following description of the governance practices of the Partnership and the General Partner is made with reference to the guidelines for effective corporate governance adopted by The Toronto Stock Exchange (the "TSE"). While the Partnership and the General Partner endorse the governance principles reflected in the TSE guidelines and consider good governance practices to be an important element in the effective and efficient operation of Canadian corporations, their respective approaches to governance are necessarily unique and do not strictly adhere to the TSE guidelines for a number of reasons, including the fact that the Partnership is a limited partnership and certain of its governance aspects are determined by laws relating to limited partnerships (including those relating to the potential loss of limited liability if limited partners participate in the control of the business of the Partnership) and the terms of the limited partnership agreement of the Partnership (the "Partnership Agreement").

In accordance with the Partnership Agreement, the General Partner directs the operations of the Partnership. The Board of Directors of the General Partner is responsible for managing the business and affairs of the General Partner and the Partnership. The Board discharges its responsibility for the stewardship of the Partnership directly and through various committees. Management of the General Partner is responsible for the day to day conduct of the Partnership's business, subject to oversight by the Board. Mr. David Fesyk, as President and Chief Executive Officer of the General Partner, has primary responsibility for day to day operations of the Partnership and for implementing business strategies and policies adopted by the Board. Mr. Fesyk reports directly to Mr. Randolph Aldridge, as Chairman of the Board. The Board retains responsibility for significant changes in the Partnership's affairs, such as approval of major capital expenditures, financing arrangements, significant acquisitions and divestitures and those matters specifically set out in the Partnership Agreement as requiring Board approval.

The composition of the Board of the General Partner is prescribed by the Partnership Agreement, which provides that the Board shall be comprised of not greater than seven directors of whom not fewer than three shall be directors who are not officers, directors or employees of Koch Industries, Inc. or its affiliates ("Independent Directors") and that if Koch Industries, Inc. and its affiliates own, directly or indirectly, less than 30% of the issued and outstanding units of the Partnership, not less than four of its directors shall be Independent Directors. The Board consists of three Independent Directors and four directors who are all employees of Koch Industries, Inc. or its affiliates. The Board has concluded that the three Independent Directors are unrelated directors within the meaning of the TSE guidelines. The Board has direct access to management and has the authority to seek advice from independent advisors, as necessary.

There are three committees of the Board: the Audit Committee, the Environmental, Health and Safety Committee, and the Compensation Committee.

The Audit Committee, comprised of Messrs. Tim Swinton and Keith Miller, has responsibility for, among other things, overseeing the nature and scope of the audit and recommending for Board approval the audited financial statements and other mandatory disclosure releases containing financial information, including the quarterly financial statements, and evaluating the accounting and financial reporting policies and internal controls of the Partnership.

The Environmental, Health and Safety Committee, comprised of Messrs. Keith Miller and Derek Brown, has responsibility for, among other things, monitoring and approving the Partnership's safety, environmental and emergency plans, procedures and controls.

The Compensation Committee, comprised of Messrs. Randolph Aldridge, Tim Swinton and Tony Botterweck, has responsibility for, among other things, assisting the Board by dealing with specific issues which may affect the compensation of senior officers and employees of the General Partner and the application of the compensation philosophy to employees of the General Partner who report through senior management. The Compensation Committee reviews the compensation packages of senior management personnel and makes recommendations on appropriate forms and levels of compensation for such employees to the Board.

Matters such as board orientation and education are the responsibility of the Board as a whole. Directors are nominated and elected by KPG Canada Ltd., the sole shareholder of the General Partner, subject to the requirement that certain members of the Board must be Independent Directors.

Directors

Randolph C. Aldridge – *Chairman of the Board*
Mr. Aldridge is President of Koch Petroleum Canada Ltd. Mr. Aldridge has over 25 years of engineering, marketing and management experience, including eight years as President of Koch Oil Co. Ltd. in Calgary, Alberta and three years as President of Koch Oil Company in Wichita, Kansas. In April 1998, Mr. Aldridge was appointed as President, Koch Oil Co.Ltd. Mr. Aldridge attended Texas A&M University where he received a Bachelor of Science degree in Chemical Engineering. He went on to earn a Master's degree in Management Science from the University of Texas at Dallas.

Anthony L. Botterweck – *Director*
Mr. Botterweck has been employed by various Koch refining and pipeline affiliates for over 25 years. His experience has included accounting, planning, supply and distribution, business development and management. Mr. Botterweck has held the office of President in the General Partner's United States affiliate, Koch Pipeline Company, L.P., since 1998, having previously occupied the office of Vice President — Marketing in that same company. Mr. Botterweck graduated from Wichita State University in 1969 with a Bachelor of Science degree in Education.

Derek Brown – *Director*
Mr. Brown has been an Adjunct Professor of Finance in the Joseph L. Rotman School of Management and a Special Lecturer at the University of Toronto since October 31, 1996. Prior to that, Mr. Brown was Vice President and Director of RBC Dominion Securities Inc., an investment dealer.

Partnership Information

David E. Dishman – *Director*
Mr. Dishman is Treasurer for Koch Industries, Inc. Mr Dishman joined Koch Industries, Inc. as Director Corporate Finance and has since served in a number of controller/chief financial officer roles for various Koch businesses, including the Gas Liquids Group and the Capital Services Group. Prior to joining Koch, Mr Dishman, worked as an auditor with Ernst & Whinney, as Treasurer for The Moran Corporation, and various roles at Panhandle Eastern (now Duke Energy). Mr Dishman is a graduate of Texas A&M University.

Keith F. Miller – *Director*
Mr. Miller is a Partner with the Calgary law firm Burnet, Duckworth & Palmer. He was admitted to the Alberta Bar in 1979 and since 1980 he has practiced regulatory law, principally before the National Energy Board and the Alberta Energy and Utilities Board.

Dale G. Schlinsog – *Director*
Mr. Schlinsog is President of Koch Exploration Canada and Koch Exploration U.S. , divisions of Koch Industries, Inc. Mr. Schlinsog has held various staff and management positions with Koch Exploration and its affiliates over the past 18 years. His experience includes oil and gas exploration, gas gathering and processing, capital products development and management. Mr. Schlinsog graduated from the University of Wisconsin-Parkside with a Bachelor of Science (Earth Science) degree in 1980 and earned a Master of Science (Geology) degree from the University of Kansas in 1982.

R. T. (Tim) Swinton – *Director*
Mr. Swinton is the Executive Chairman of IPEC Ltd., a publicly traded oilfield services company. Prior to assuming this role in June of 1999, Mr. Swinton held a number of senior management positions in both the service and producer sectors of the industry including Chairman and Chief Executive Officer of Kenting Energy Services Inc. and Chairman and Chief Executive Officer of EnServ Corporation.

Board of Directors

Randolph C. Aldridge[1&4]
President
Koch Petroleum Canada Ltd.

Anthony L. Botterweck[4]
President
Koch Pipeline Company, L.P.

Derek Brown[3]
Adjunct Professor of Finance
University of Toronto

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Keith F. Miller[2&3]
Partner
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Dale G. Schlinsog
President
Koch Exploration Canada

R.T. (Tim) Swinton[2&4]
Executive Chairman
Ipec Ltd.

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2 *Member of Audit Committee*
3 *Member of Environmental, Health and Safety Committee*
4 *Member of Compensation Committee*

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Corporate Secretary

Head Office

1400, 111 -5th Avenue S.W.
Calgary, Alberta, T2P 3Y6
Telephone: (403) 716-7600
Facsimile: (403) 716-7440

Bankers

Bank of Montreal
Calgary, Alberta

Auditors

Ernst & Young LLP
Calgary, Alberta

Registrar and Transfer Agent

Computershare Trust Company of Canada
1800 McGill College Avenue
Montréal, Quebec H3B 3K9
Telephone: 1-800-332-0095
1-514-982-7555

Legal Counsel

Burnet, Duckworth & Palmer
Calgary, Alberta

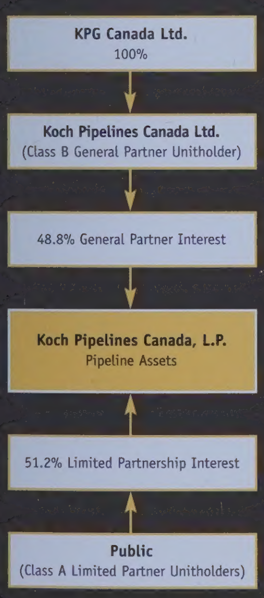
Stock Exchange Listing

The Toronto Stock Exchange
37,500,000 Class A Limited Partnership units trading under the symbol KPC.UN

Investor Relations Contact

Mark Ward
Manager, Investor Relations
Telephone: (403) 716-7606
Facsimile: (403) 716-7440
Email: investorrelations@kochind.com
Website: www.kpcpipelines.com

Partnership Profile



The general partner of Koch Pipelines Canada, L.P. is Koch Pipelines Canada Ltd. (the "General Partner"), a wholly-owned subsidiary of KPG Canada Ltd. ("KPG Canada"). KPG Canada is an indirect, wholly-owned subsidiary of Koch Industries, Inc. of Wichita, Kansas.

- Class A Limited Partnership units issued: 37,500,000
  Trade on the TSE under the symbol KPC.UN
- Class B General Partner units issued: 35,700,000

KPG Canada and its Canadian affiliates ("Koch Canada") have over 300 employees in Alberta, Saskatchewan and Ontario. Koch Canada's activities include heavy oil and gas exploration and production, crude oil supply and trading and crude oil transportation. Koch Canada has grown to become one of the largest purchasers, shippers and exporters of Canadian crude oil.

Abbreviations

Bbl..barrel(s)
Bbl/d ....barrel(s) per day
Mbbl/d.............thousand barrels per day
MMbbl ....million barrels
WTI ....West Texas Intermediate

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KOCH

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